



STATE OF DELAWARE

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TO: The Chair and Members of the Commission

FROM: Jason R. Smith
Public Utilities Analyst II

SUBJECT: IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION
FOR APPROVAL OF THE ISSUANCE OF COMMON STOCK (FILED SEPTEMBER 17,
2014) – PSC DOCKET NO. 14-0412

APPLICATION:

On September 17, 2014, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed an application pursuant to 26 Del. C. §215 seeking authority to increase the total allowed issuance of shares of Chesapeake common stock related to its Dividend Reinvestment and Direct Stock Purchase Plan ("DRP") and Retirement Savings Plan ("RSP"). This application seeks approval for the sole purpose of taking into consideration the Company's Board of Directors recent approval of a three-for-two stock split. The Company maintains there will be no change in total equity as a result of the stock split.

BACKGROUND:

The DRP was approved by the Delaware Public Service Commission (the "Commission") through Order No. 3071 dated May 24, 1989 which authorized the Company to issue up to 200,000 shares of Chesapeake common stock for the purpose of instituting and administering the DRP. Net proceeds from the issuance are added to Chesapeake's treasury and used for general corporate purposes. An additional 300,000 shares of common stock for the purpose of administering the DRP was approved by the Commission through Order No. 4097 dated December 19, 1995. Presently, the total authorization for issuance of common stock under the DRP is 1,250,000 which was approved by the Commission through Order No. 6543 dated December 21, 2004 approving the issuance of an additional 750,000 shares.

As of June 30, 2014 Chesapeake has issued 708,850 shares of common stock relating to the DRP leaving 541,150 shares available to be issued as authorized by the Commission. On July 2, 2014, Chesapeake's Board of Directors approved a three-for-two stock split (the "Stock Split") of the Company's outstanding common stock, meaning that shareholders will receive one share of common stock for each two shares they own. The Stock Split applies to all shareholders on record as of August 13, 2014 with a distribution date of September 8, 2014. The date that the Company's common stock will begin trading at its new split-adjusted price on the New York Stock Exchange ("NYSE") is September 9, 2014. This application requests approval to increase the authorization of issued shares to 1,875,000 from the presently approved 1,250,000. The Company maintains this is for the sole purpose of taking into consideration the Stock Split. To adjust for the stock split, 811,725 shares of common stock will remain available to be issued under the DRP.

Chesapeake implemented its RSP on February 1, 1977. The RSP allows for a major portion of the employer matching contributions made on behalf of participants to be invested in common stock of Chesapeake. Pursuant to Commission Order No. 3425 dated June 23, 1992, 100,000 shares of Chesapeake common stock were approved to be issued for the purpose of administering the RSP. The Commission authorized issuance of an additional 100,000, 300,000, 600,000 of common stock for the purpose of administering the RSP on July 13, 1999, December 19, 2000, and May 4, 2010 respectively. Presently, as of June 30, 2014, the Company has issued 529,350 shares of common stock relating to the RSP of the authorized 1,100,000 shares of common stock. As a result, 570,650 shares remain available for issuance as authorized by the Commission. This application requests approval to increase the authorization of issued shares to 1,650,000 from the presently approved 1,100,000. The Company maintains this is for the sole purpose of taking into consideration the Stock Split. To adjust for the stock split, 855,975 shares of common stock will remain available to be issued under the DRP.

STAFF'S REVIEW:

Staff performed a review of the application for compliance with the format and instructions as set forth in Part D of 26 Del. Admin. C. §1002 entitled Minimum Filing Requirements for All Regulated Companies Subject to the Jurisdiction of the Public Service Commission (the "Minimum Filing Requirements"). Initially, the Opinion of Counsel with respect to the legality of the proposed new issuance, as outlined in 3.1.9 as outlined in Part D in the Minimum Filing Requirements was not included in this application. However, upon contacting Company representatives regarding this, the Company quickly rectified this issue and filed the respective Opinion of Counsel on September 29, 2014. As a result, Staff has determined that now the application has met the requirements and there were no additional deficiencies requiring follow up from the Company.

Staff performed a review of the application for accuracy and completeness, as well as reviewed the supporting documentation provided by the Company including the Written Consent of the Company's Board of Directors, Form 10-Q, Form 10-K, as well as balance sheet and income statements through month ending June 30, 2014 referencing before and after stock issuance balances of common stock and the impact on total stockholder's equity and liabilities. As noted in the Company's application and accompanying financial statements and schedules, there has been no change in total equity. Also submitted were schedules with actual and pro forma capitalization ratios for twelve (12) months ended June 30, 2014, actual and pro forma rate of return for twelve (12) months ended June 30, 2014, and a fixed charge coverage ratio for twelve (12) months ended June 30, 2014. As required by Section 2.1.3 of the Minimum Filing Requirements and based upon Schedule No. 1 submitted with Company's application, Staff has calculated the before and after issuance of the debt to equity rates and summarized the percentages in the table below.

	Before The Stock Split	After The Stock Split
Debt Percentage	36.01%	36.01%
Equity Percentage	63.99%	63.99%

Staff has also reviewed the legal opinion dated September 29, 2014 prepared by counsel to the Company regarding the legality of the proposed issuance under the Company's DRP and RSP for the sole purpose of taking into account the recent Stock Split. This legal opinion states that based on counsel's knowledge of 26 Del. C. §215 and application and interpretation of applicable regulations and case law, the Company's proposed stock issuance is valid in accordance with law.

STAFF'S RECOMMENDATION:

Based on Staff's review, the Application complies with 26 Del. C. §215 because the issuance of the stock due to the Stock Split pursuant to the application is made in accordance with law, for a proper purpose and is consistent with the Public Interest. Accordingly, Staff recommends that the Commission approve the Application subject to the conditions that the Company (i) may not construe this approval as a ratemaking treatment for future cases filings; (ii) obtain any necessary approval by Chesapeake's board of directors as to the actual amount of stock to be issued and the terms and conditions of any issuance; (iii) obtain any additional necessary approvals from the Maryland and/or Florida Public Service Commission; and (iv) comply with all applicable federal securities laws.